## Macro: Economic growth regained momentum in the last quarter

In 2024Q4, GDP grew by 3.0% yoy, in line with our forecast and the average market expectation, and by 1.7% qoq in seasonally and calendar-adjusted terms. Thus, after two consecutive quarters of limited contraction, economic activity rebounded with a strong increase. In 2024, growth slowed down to 3.2% (2023: 5.1%), which is below the MTP forecast of 3.5%.

The main driver of both annual and quarterly growth in 2024Q4 was domestic demand. Thus, the rebalancing process that was thought to have started after the third quarter data did not continue in the last quarter. Both private consumption and investment expenditure contributed to the strong performance of domestic demand. On the other hand, the negative contribution of net exports was due to both the fall in exports and the rise in imports.

Domestic demand was also the main driver of growth in 2024 as a whole, contributing 2.1 percentage points. In addition, private consumption growth continued to outpace GDP growth, albeit at a much slower pace than in previous years. The decline in gold imports also played an important role in the positive contribution from net exports. Growth in investment in machinery and equipment turned negative after 5 years. On the production side, the slowdown in growth came from industry and services, while the contribution of the construction sector to growth increased due to construction activity in the earthquake zone. To sum up, although economic activity slowed down after the tightening measures, it was observed that activity picked up before sufficient rebalancing among demand components was achieved, and items related to the productive capacity of the economy (industry and machinery and equipment investment) were more adversely affected by the tightening measures.

In the current conjuncture, where unemployment is quite low and sectoral divergences are evident, it is not easy to draw conclusions about the level of the output gap; therefore, we believe that an approach that reflects the dynamics of the current period is needed. In this period, indicators of the output gap, which we define as a combination of the goods/services market, the credit market and the labor market, suggest that demand conditions are not as disinflationary as the CBRT believes.

High frequency data suggest that the economy will continue to grow in the first quarter of 2025. According to the output gap path of the CBRT Inflation Report, the year-end inflation forecast of 24% is consistent with moderate, sub-potential growth of around 2.5%. The current outlook, on the other hand, implies a growth rate of 5% and above, unless policy is tightened.

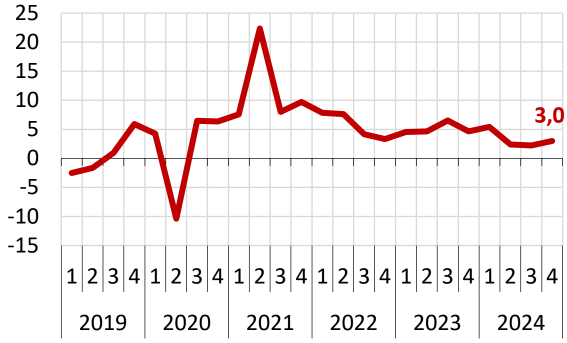
**In 2024Q4, annual GDP growth was 3.0%, in line with our forecast and the average market expectation** (Chart 1). Calendar-adjusted annual growth was 3.1% in the final quarter. In seasonally and calendar-adjusted (s.a.) terms, GDP grew strongly by 1.7% qoq, following slight contractions in Q2 and Q3 (Chart 2).

**Data for the first three quarters of the year were revised slightly**. Annual growth was revised up from 5.3% to 5.4% for Q1 and from 2.1% to 2.2% for Q3, bringing annual growth for the first three quarters of the year from 3.2% to 3.3%. Quarterly growth (s.a.) was revised from 1.2% to 1.0% for Q1 and from -0.2% to -0.1% for Q3.

Accordingly, **growth slowed from 5.1% in 2023 to 3.2% in 2024**. The MTP forecast was higher at 3.5%. We calculate that the CBRT's output gap forecast implies a growth rate below 3% for 2024. In our view, realised annual and quarterly growth is likely to change the CBRT's output gap forecast.

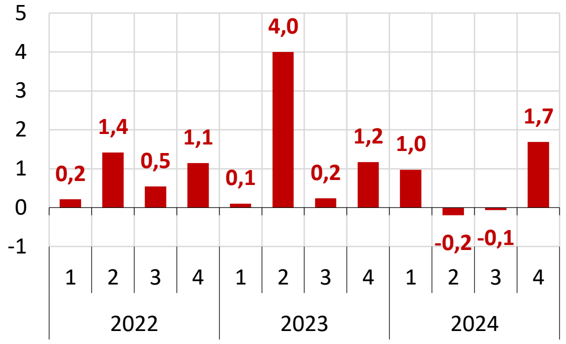
**In 2024, GDP in USD terms increased by 17.0% to $1.32 trillion**. Thus, GDP per capita increased from $13,243 to $15,463.

Chart 1. GDP (y-o-y, %)




Source: TURKSTAT

Chart 2. GDP (seasonally adjusted, q-o-q, %)



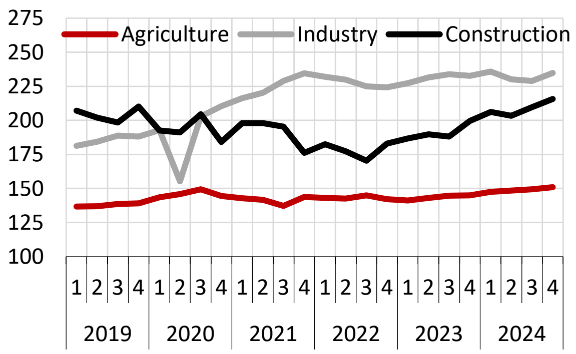

Source: TURKSTAT

**Production Side:**

**In the final quarter of 2024, all sectors recorded annual growth and made a positive contribution to growth** (Tables 1 and 2). **Construction**, which has been growing faster than other sectors over the last 1.5 years as a result of reconstruction work in the earthquake zone, was again the sector with the highest growth in the final quarter, at 8.7 %. **Agricultural** value added grew by 4.7 %, while we calculate the total value added growth of all services to be 2.4 %. Within services, **core services** (wholesale and retail trade, transport and storage, hotels and restaurants combined) recorded a higher growth rate of 3.2 %. The lowest growth rates were recorded for real estate activities, 'professional, administrative and support services' and 'public administration, education, health and social work'. Industrial production recovered strongly in November and December, rising by 2.2% yoy in the last quarter. (Macro: Industrial production - December 2024). **Industrial** value added, on the other hand, increased by 1.4% yoy, which was lower than production. Net taxes increased by 10.4% yoy.

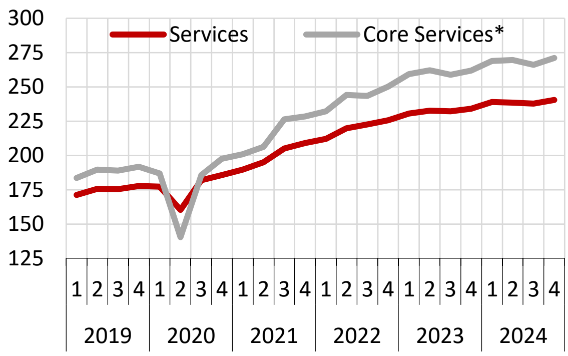
**Quarterly growth (s.a.), like the annual growth outlook, was spread across sectors** (Table 1). While construction and industrial value added stood out with 2.8% and 2.6% increases, respectively, the 1.1% and 1.0% increases in total services and agricultural value addeds, respectively, led to a more limited quarterly growth. The quarterly increase in net tax item was realised as 4.9%. Among the sub-items of services, core services posted a stronger increase by 1.9%, while finance and insurance, which grew by 2.1% in the previous quarter, recorded a partial correction (-0.4%).

Chart 3. Value Added by Sectors (seasonally adjusted, 2009=100)




Source: TURKSTAT

Chart 4. Value Added by Sectors (seasonally adjusted, 2009=100)




* The sum of retail and wholesale trade, transport and storage, accommodation and catering services

Source: TURKSTAT

Due to the chain indexation method used in the calculation of national income, the quarterly and annual growth rates obtained from the sum of sectors are not the same as the quarterly and annual growth rates announced for GDP. By the bottom-up approach, we calculate the annual and quarterly growth rates at 3.5% and 1.9%, respectively, i.e., stronger than the announced changes.

**Table 1. The Growth of GDP and Sub-Items from the Production Side (%)**

| | Annual Growth | | | | Quarterly Growth (seas. adj.) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2024-Q1 | 2024-Q2 | 2024-Q3 | 2024-Q4 | 2024-Q1 | 2024-Q2 | 2024-Q3 | 2024-Q4 |
| **GDP** | **5.4** | **2.4** | **2.2** | **3.0** | **1.0** | **-0.2** | **-0.1** | **1.7** |
| **Agriculture** | **3.8** | **3.7** | **3.7** | **4.7** | **1.8** | **0.7** | **0.7** | **1.0** |
| **Industry** | **4.1** | **-1.5** | **-2.1** | **1.4** | **1.4** | **-2.4** | **-0.5** | **2.6** |
| Manufacturing | 3.4 | -2.8 | -2.9 | 1.4 | 1.5 | -3.1 | -0.4 | 2.9 |
| **Construction** | **11.3** | **6.3** | **11.1** | **8.7** | **3.3** | **-1.4** | **3.2** | **2.8** |
| **Services** | **4.3** | **2.5** | **2.0** | **2.4** | **2.1** | **-0.2** | **-0.2** | **1.1** |
| Core Services* | 4.3 | 3.5 | 1.7 | 3.2 | 2.7 | 0.2 | -1.3 | 1.9 |
| Information and Communication | 4.5 | 3.9 | 2.2 | 3.2 | 3.9 | 0.3 | -0.5 | 0.7 |
| Financial and Insurance Activities | 6.8 | 1.4 | 8.5 | 3.3 | 2.3 | 0.2 | 2.1 | -0.4 |
| Real Estate Activities | 2.3 | 3.7 | 2.5 | 1.3 | 0.1 | 1.1 | 0.2 | 0.3 |
| Profes.. Adm. and Support Services | 5.7 | 0.6 | -0.3 | 0.2 | 4.8 | -4.4 | 0.0 | 0.4 |
| Public Administration** | 4.5 | 0.4 | 1.1 | 1.3 | 0.4 | -0.6 | 1.1 | 0.6 |
| Other Services | 1.0 | 1.2 | -2.2 | 3.6 | -1.2 | 0.8 | -0.1 | 2.3 |
| **Net Taxes (Tax - Subsidies)** | **7.2** | **10.8** | **2.6** | **10.4** | **0.9** | **5.0** | **-2.2** | **4.9** |

* Retail-Wholesale Trade. Transport-Storage. Accommodation-Catering
** Public Administration. Education. Human Health and Social Work Activities
Source: TURKSTAT. Akbank

**Table 2. Contribution to GDP Growth from the Production Side (Percentage Point)**

| | Annual Growth | | | | Quarterly Growth (seas. adj.) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2024-Q1 | 2024-Q2 | 2024-Q3 | 2024-Q4 | 2024-Q1 | 2024-Q2 | 2024-Q3 | 2024-Q4 |
| **GDP** | **5.4** | **2.4** | **2.2** | **3.0** | **1.0** | **-0.2** | **-0.1** | **1.7** |
| **Agriculture** | **0.1** | **0.1** | **0.4** | **0.2** | **0.1** | **0.0** | **0.0** | **0.1** |
| **Industry** | **0.9** | **-0.3** | **-0.4** | **0.3** | **0.3** | **-0.5** | **-0.1** | **0.5** |
| Manufacturing | 0.6 | -0.5 | -0.4 | 0.2 | 0.2 | -0.5 | -0.1 | 0.5 |
| **Construction** | **0.6** | **0.3** | **0.5** | **0.4** | **0.2** | **-0.1** | **0.2** | **0.1** |
| **Services** | **2.7** | **1.6** | **1.1** | **1.5** | **1.2** | **-0.1** | **-0.1** | **0.7** |
| Core Services* | 1.1 | 0.9 | 0.4 | 0.8 | 0.7 | 0.1 | -0.4 | 0.5 |
| Information and Communication | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Financial and Insurance Activities | 0.4 | 0.1 | 0.4 | 0.1 | 0.1 | 0.0 | 0.1 | 0.0 |
| Real Estate Activities | 0.2 | 0.3 | 0.2 | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 |
| Profes. Adm. and Support Services | 0.3 | 0.0 | 0.0 | 0.0 | 0.2 | -0.2 | 0.0 | 0.0 |
| Public Administration** | 0.5 | 0.0 | 0.1 | 0.1 | 0.0 | -0.1 | 0.1 | 0.1 |
| Other Services | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.1 |
| **Net Taxes (Tax - Subsidies)** | **0.8** | **1.2** | **0.3** | **1.2** | **0.1** | **0.6** | **-0.3** | **0.6** |

* Retail-Wholesale Trade. Transport-Storage. Accommodation-Catering
** Public Administration. Education. Human Health and Social Work Activities
Note: Totals may not sum up to GDP growth due to chain index method.
Source: TURKSTAT, Akbank

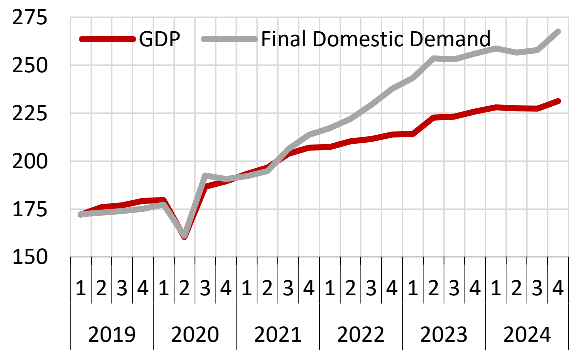
In 2024, growth was 3.2%, with construction value added growing at the highest rate (9.3%) across the main sectors. While GDP growth slowed compared to last year (5.1 %), construction value added growth accelerated (2023: 7.2%). As we have highlighted before, construction activity in the earthquake zone played an important role in the high growth in the last two years. We expect this effect to diminish in 2025. Comparing sectoral value added growths in 2023 and 2024, annual growth increased from 0.2% to 3.9% in agriculture, but declined from 1.7% to 0.5% in industry, from 5.6% to 2.8% in services and from 12.6% to 7.7% in net taxes. Thus, the slowdown in growth was mainly driven by services and industry. The slowdown in services value added growth was spread across all sub-items except information and communication. Nevertheless, core services, financial and insurance services, and information and communication services still managed to grow faster than total services in 2024, at 3.%, 4.9% and 3.4%, respectively.

**Expenditure Side:**

**In the final quarter of 2024, both annual and quarterly growth were driven by domestic demand** (Tables 3 and 4, Chart 5). Therefore, the rebalancing in economic activity (across demand components), that was thought to have started after the third quarter data, did not continue in the last quarter. Net exports made a downward contribution to quarterly and annual growth by 1.8 points and 0.8 points, respectively (Table 4). Both the contraction in exports and the rise in imports contributed to this development. We have drawn attention to the deterioration in the underlying trend in foreign trade and balance of payments data for the last quarter (Macro: Balance of Payments - December 2024). In our view, both the recovery in domestic demand and the real appreciation of the Turkish lira were responsible for the negative contribution of net exports.

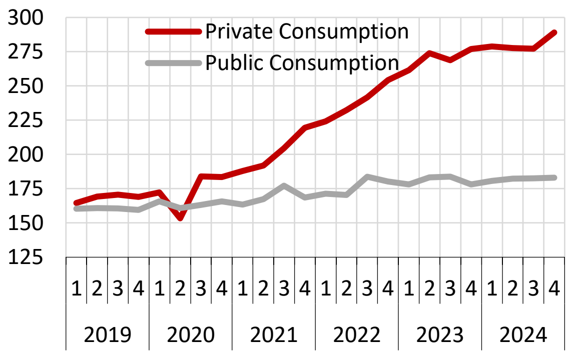
**We calculate that domestic demand grew by 3.6% qoq and 3.8% yoy in the last quarter** (Table 3, Chart 9). The increase in domestic demand was driven by both private consumption and investment. **Private consumption** expenditures rose by 4.3% qoq and 3.9% yoy, faster than GDP (Chart 6). This was signalled by high-frequency card expenditure data and the rise in the retail sales volume index in the last quarter. On the other hand, **public consumption** posted a more limited increase of 1.6% yoy and 0.2% qoq (Chart 6). On the **investment** side, annual growth was stronger than consumption at 6.1%, while construction investments posted a relatively stronger increase on the expenditures side as well as on the value-added side. **Construction** investments increased by 9.7% yoy, while the increase in **machinery-equipment** investments was more limited with 4.2%. On a quarterly basis, investments increased by 3.9%, while the rise in machinery-equipment investments (3.9%) was stronger than that in construction investments (2.4%) (Table 3, Charts 7 and 8). Meanwhile, **change in stocks** continued to make a negative contribution to both annual and quarterly growth (-0.9 and -0.7 points, respectively). Due to the statistical error and the persistent negative trend, it is not possible to interpret these data in an economic sense.

**Chart 5. GDP ve Final Domestic Demand (Seasonally adjusted. 2009=100)**



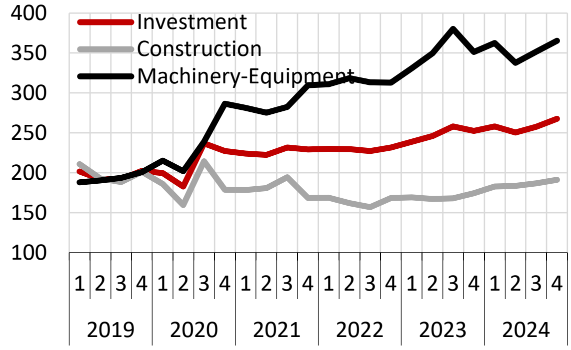

Source: TURKSTAT, Akbank

**Chart 6. Consumption Expenditures (Seasonally adjusted. 2009=100)**



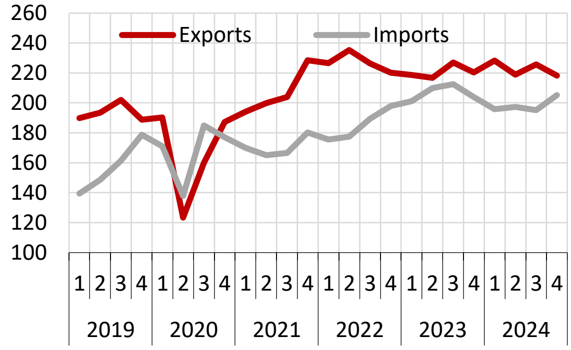

Source: TURKSTAT, Akbank

**Chart 7. Investment Expenditures (Seasonally adjusted. 2009=100)**



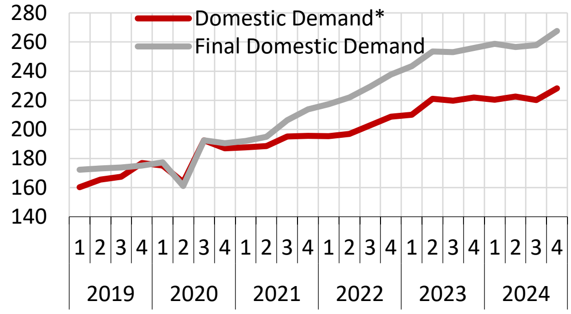

Source: TURKSTAT, Akbank

**Chart 8. Goods and Services Exports and Imports (Seasonally adjusted. 2009=100)**



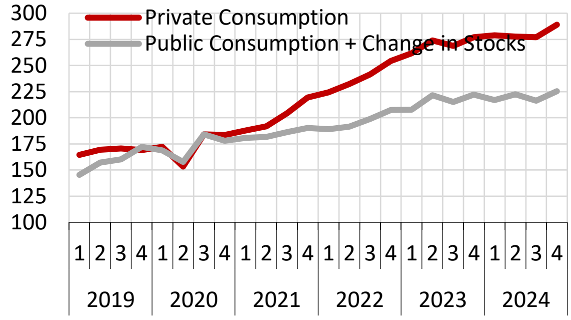

Source: TURKSTAT

**Chart 9. Domestic demand (Seasonally adjusted. 2009=100)**




* Domestic demand is the sum of final domestic demand and change in stocks.
Source: TURKSTAT, Akbank

**Chart 10. Private Consumption (Seasonally adjusted. 2009=100)**




Source: TURKSTAT, Akbank

In 2024, both domestic demand and net exports contributed to annual growth. However, the higher contribution came from domestic demand with 2.1 points, while the contribution from net exports was 1.1 points. The contribution from net exports came from the increase in exports (0.2 points) and the slowdown in imports (0.9 points). However, we think that the slowdown in gold imports played a role in the contribution from the import side rather than the slowdown in core imports. In this sense, we estimate that the contribution of net exports excluding gold to annual growth was not as large as reported. The main item that reduced the contribution from domestic demand was the -1.8 pp contribution from the "change in stocks". Final domestic demand that excludes stock changes added 3.9 points to annual growth. Of this, 2.8 points came from private consumption and the rest from construction-related investment.

Looking at the 2024 data from the annual growth side, we see that private consumption growth declined to 3.7% after high double-digit growth in the previous three years, but still outpaced GDP growth. Annual growth in public consumption falls from 2.4% to 1.2%. This is the lowest growth rate for public consumption since 2011. Investment grew by 3.9% in 2024. In 2023 it grew by 8.4%. Annual growth in construction investment increased from 3.8% to 9.0%, while investment in machinery and equipment fell by 0.3% in 2024 after rising by 12.8% in 2023. Investment in machinery and equipment contracted on an annual basis for the first time since 2019. Exports increases marginally by 0.9% in 2024, after falling by 2.8% in 2023. Imports, on the other hand, contracted by 4.1% in 2024 after rising by 11.8% in 2023. The fall in gold was also very effective in this decline.

**Table 3. The Growth of GDP and Sub-Items from the Expenditures Side (%)**

| | Annual Growth | | | | Quarterly Growth (seas. adj.) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2024-Q1 | 2024-Q2 | 2024-Q3 | 2024-Q4 | 2024-Q1 | 2024-Q2 | 2024-Q3 | 2024-Q4 |
| **GDP** | **5.4** | **2.4** | **2.2** | **3.0** | **1.0** | **-0.2** | **-0.1** | **1.7** |
| **Total Consumption** | **6.7** | **1.0** | **2.3** | **3.5** | **0.7** | **-0.2** | **-0.1** | **3.7** |
| Private Consumption | 7.3 | 1.2 | 2.6 | 3.9 | 0.6 | -0.4 | -0.2 | 4.3 |
| Public Consumption | 3.3 | -0.2 | 0.1 | 1.6 | 1.4 | 1.0 | 0.1 | 0.2 |
| **Investment** | **9.1** | **0.8** | **-0.1** | **6.1** | **2.3** | **-2.9** | **2.8** | **3.9** |
| Construction | 8.7 | 7.8 | 9.9 | 9.7 | 4.7 | 0.3 | 1.9 | 2.4 |
| Machinery and Equipment | 10.2 | -5.6 | -8.3 | 4.2 | 3.2 | -6.8 | 4.1 | 3.9 |
| Other Assets | 2.9 | -0.9 | -1.2 | 3.8 | -8.9 | 4.2 | 0.4 | 8.9 |
| **Exports** | **5.1** | **0.8** | **0.7** | **-2.0** | **3.6** | **-4.1** | **3.1** | **-3.3** |
| **Imports** | **-3.2** | **-5.9** | **-9.6** | **1.6** | **-4.0** | **0.8** | **-1.1** | **5.2** |
| | | | | | | | | |
| **Domestic Demand** | **3.7** | **0.9** | **0.1** | **3.8** | **-0.7** | **1.0** | **-1.0** | **3.6** |
| **Final Domestic Demand** | **7.2** | **1.0** | **1.8** | **4.1** | **1.1** | **-0.8** | **0.5** | **3.8** |

Source: TURKSTAT, Akbank

**Table 4. Contribution to GDP Growth from the Expenditures Side (Percentage Point)**

| | Annual Growth | | | | Quarterly Growth (seas. adj.) | | | |
|---|---|---|---|---|---|---|---|---|
| | 2024-Q1 | 2024-Q2 | 2024-Q3 | 2024-Q4 | 2024-Q1 | 2024-Q2 | 2024-Q3 | 2024-Q4 |
| **GDP** | **5.4** | **2.4** | **2.2** | **3.0** | **1.0** | **-0.2** | **-0.1** | **1.7** |
| **Total Consumption** | **5.9** | **0.9** | **1.9** | **3.2** | **0.6** | **-0.2** | **-0.1** | **3.3** |
| Private Consumption | 5.5 | 0.9 | 1.9 | 3.0 | 0.5 | -0.3 | -0.1 | 3.2 |
| Public Consumption | 0.4 | 0.0 | 0.0 | 0.2 | 0.2 | 0.1 | 0.0 | 0.0 |
| **Investment** | **2.3** | **0.2** | **0.0** | **1.5** | **0.6** | **-0.7** | **0.7** | **1.0** |
| Construction | 0.8 | 0.7 | 0.8 | 0.8 | 0.4 | 0.0 | 0.2 | 0.2 |
| Machinery and Equipment | 1.3 | -0.7 | -1.1 | 0.5 | 0.4 | -0.9 | 0.5 | 0.5 |
| Other Assets | 0.1 | 0.0 | 0.0 | 0.1 | -0.3 | 0.1 | 0.0 | 0.3 |
| **Changes in Stocks** | **-4.6** | **-0.2** | **-1.9** | **-0.9** | **-1.9** | **1.9** | **-1.6** | **-0.7** |
| **Net Exports** | **1.9** | **1.5** | **2.2** | **-0.8** | **1.7** | **-1.1** | **0.9** | **-1.8** |
| Exports | 1.2 | 0.2 | 0.2 | -0.5 | 0.8 | -1.0 | 0.7 | -0.8 |
| Imports | 0.7 | 1.3 | 2.0 | -0.4 | 0.8 | -0.2 | 0.2 | -1.0 |
| | | | | | | | | |
| **Domestic Demand** | **3.6** | **0.9** | **0.1** | **3.8** | **-0.7** | **0.9** | **-1.0** | **3.5** |
| **Final Domestic Demand** | **8.2** | **1.1** | **1.9** | **4.7** | **1.2** | **-0.9** | **0.6** | **4.2** |

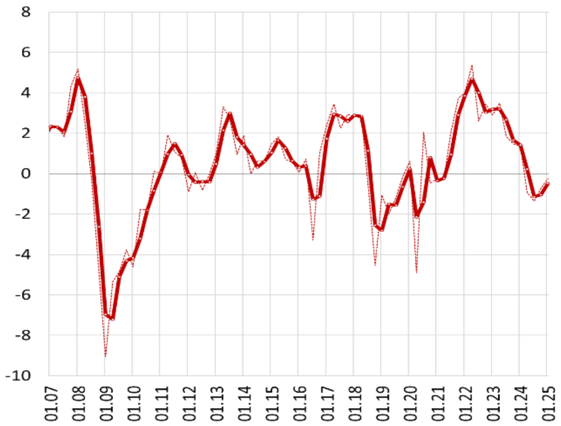
Source: TURKSTAT, Akbank

**Output Gap:**

One of the important assessments in recent monetary policy decision texts is that demand conditions have reached disinflationary levels, in other words, the output gap is negative (Macro: MPC Decision - January 2024). In the current conjuncture, where unemployment is quite low and sectoral divergences are evident, it is not easy to draw conclusions about the level of the output gap; therefore, we believe that an approach that reflects the dynamics of the current period is needed.

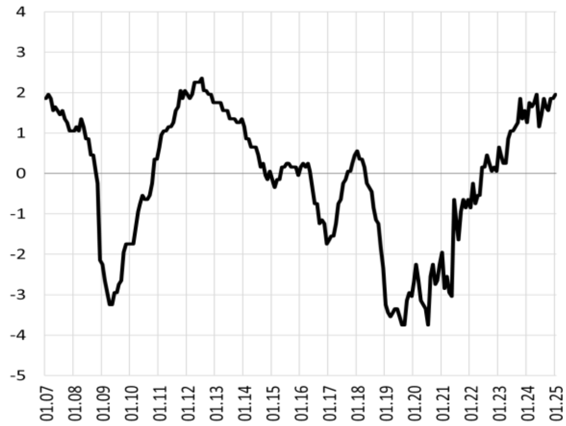
Similar to the CBRT's current approach, output gap indicators, which we construct by taking into account the goods/services market (business cycles) and credit (financial cycles), move into negative territory in the second half of 2024 in line with the inflation report, but the gap closes again in the last quarter (Chart 11). On the other hand, as of January, the unemployment rate (s.a.) stood at 8.4%, around 2 points below its historical average (Chart 12), and signs of overheating persist in some services sectors (Chart 13).

**Chart 11. GDP and Credit-Based Output Gap (quarterly. %)**




Source: TURKSTAT, Akbank

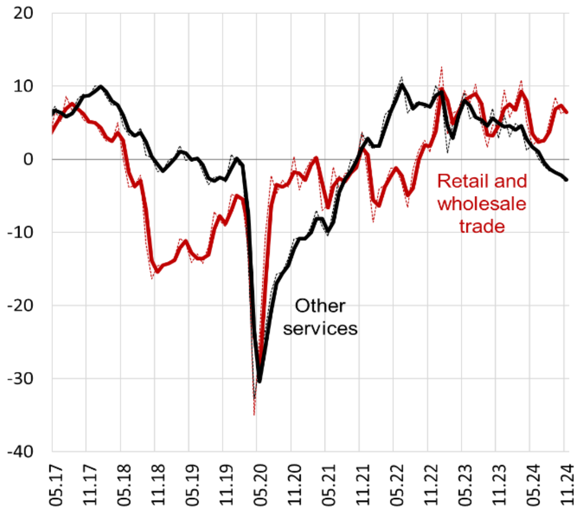
**Chart 12. Unemployment Rate (demeaned and reversed, %)**




Source: TURKSTAT, Akbank

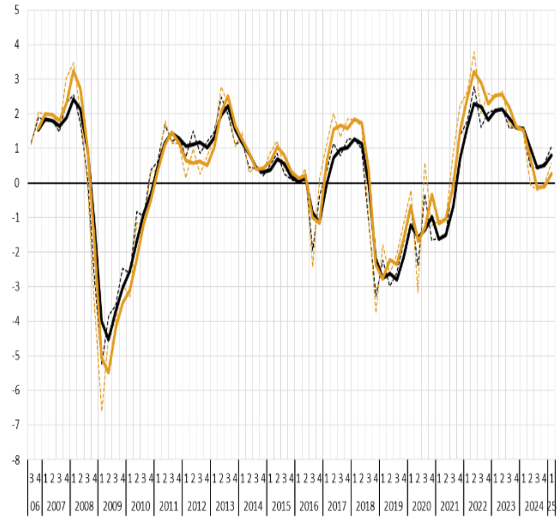
In this period, defining the output gap as a combination of the goods/services market, the credit market and the labor market may lead to a different assessment of aggregate demand conditions. Chart 14 presents the output gap indicators that we construct by taking into account the unemployment rate in addition to GDP and credit. In order to combine the GDP gap, credit gap and unemployment gap with the most appropriate weights, we estimate Phillips equations explaining core-B inflation. This graph shows the results of the two models with the best out-of-sample forecasting performance. Thus, we conclude that **demand conditions are not as disinflationary as the CBRT believes**.

**Chart 13. Output Gap in Services (monthly, %)**




Source: TURKSTAT, Akbank

**Chart 14. GDP-Credit-Unemployment Based Output Gap (quarterly, %)**



Source: TURKSTAT, Akbank

This report is prepared by Akbank Economic Research

Economic.research@akbank.com

Çağrı Sarıkaya– Chief Economist
Cagri.Sarikaya@akbank.com

Çağlar Yüncüler
Caglar.Yunculer@akbank.com

M. Sibel Yapıcı
Sibel.Yapici@akbank.com